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MORTGAGE BANKING

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THE LONG REACH TO AFFORDABILITY

CONTENTS

MAY 1988 VOLUME 46 NUMBER 8

COVER: The Single-Family Market

Home sales in America went up for 35 years, then started declining as house prices outstripped incomes, even two-paycheck incomes. Studies and task force reports are emerging—and legislators are getting more nervous—as the problem reaches higher and higher into the middle class. This month, ***Mortgage Banking*** looks at affordability and what mortgage bankers are doing to capture their shares of traditional and move-up markets, both of which are getting smaller and smaller:

12 **A Question of Affordability** *For $65 a month, a returning World War II GI could buy a house in Levittown, but that same house would now cost his children $120,000 to $160,000. The picture is pretty much the same all over the U.S., but some solutions are in the offing.* By SHARON GELTNER

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COVER ILLUSTRATION BY JON ELLIS

PORTFOLIO

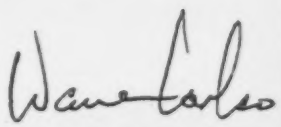
Being a mortgage banker is a risky business that, like medicine, can be as much art as craft. Intelligence and judgment are our principal tools, regardless of everything we read about sophisticated hedging programs and the like. These can help, but only that. So any mortgage banker must spend much of the day doing hand-to-hand combat with interest rate fluctuations and our industry's countless other variables, mix in a sixth sense that comes from experience, and go.

The problem with this is we can become mired in daily concerns, forgetting the broader purposes of why we are here. One of them is to create homeowners. A number of stories in this month's *Mortgage Banking*, illustrated rather dramatically on the cover by Pennsylvania freelance Jon Ellis, focus on just what a tough job that is these days as house prices outstrip incomes and make homeownership more difficult.

We begin with a look at growing unaffordability, then go to a roundtable where mortgage bankers talk about what can and cannot be done for the first-time buyer. You would be surprised at how much activity there really is out there, how much mortgage bankers are working within existing restrictions to get people into houses. In the same piece, we also talk about how our industry is going to have to change its ways if it is going to get its share of the move-up market and jumbo loans.

This issue also takes note of two important new studies that have been done about the American housing market. One is by the Harvard Joint Center for Housing Studies, and the other is by the National Housing Task Force. MBA supported both of these efforts. Studies have a way of capturing the limelight and then fading into dusty obscurity. But we feel differently about these reports. They, along with a major new effort now under way to get comprehensive housing legislation for the 1990s, will help renew a national debate on America's housing problems, especially in this presidential election year. If even a few of the recommendations become law, both housing and our industry will benefit.

Elsewhere in this issue, Tom Eggebrecht of North American tells us how his firm actually expanded out of Texas during the last couple years and what mortgage bankers should think about before entering new markets. Some are not so obvious. A companion piece by Tom Harman, a Connecticut lawyer, tells us what legal pitfalls to look for when we start doing business across state lines. In Forum, four Certified Mortgage Bankers debate the merits of two issues involving ARM marketing and excess servicing fees. And speaking of servicing, MBA's semiannual conference on the subject will be held next month in New York City. We've put together 20 panels on residential and income property servicing, and they'll touch on everything from compliance reporting to ways to increase servicing profits.



Warren Lasko
Executive Vice President

Coming in
JUNE

'It's War Out There'

So declared one mortgage banker when assessing the state of the industry. The last year has not been good to mortgage bankers, and much new strategy is being planned for what are indeed hard times. Chief executives of three large mortgage banking companies and four smaller ones talk about what they are doing and the future, where mortgage banking could take on an entirely different look.

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HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS						PERMITS 17,000 ISSUING PLACES					
	Actual			Seasonally Adjusted Annual Rates			Actual			Seasonally Adjusted Annual Rates		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987												
SEP	152	113	39	1,679	1,260	419	137	95	42	1,502	1,072	430
OCT	139	102	37	1,538	1,172	366	125	91	34	1,463	1,056	407
NOV	119	84	35	1,631	1,180	481	101	72	29	1,469	1,065	404
DEC	85	64	21	1,399	1,086	313	94	67	27	1,361	1,055	306
1988												
JAN	78	59	19	1,372	1,053	319	70	54	16	1,257	991	266
FEB$_p$	**90**	**68**	**22**	**1,494**	**1,150**	**344**	**91**	**67**	**24**	**1,402**	**1,073**	**329**
1987 TOTAL	1,617	1,209	408				1,537	1,120	417			
1986 TOTAL	1,804	1,263	542				1,769	1,185	584			
2 MONTHS												
1988	168	127	41				161	121	40			
1987	208	151	57				199	144	55			
1986	223	150	73				228	142	86			
1985	201	135	66				206	128	78			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS								PERMITS 17,000 ISSUING PLACES							
	Actual				Seasonally Adjusted Annual Rates				Actual				Seasonally Adjusted Annual Rates			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1987																
SEP	25	31	61	36	255	309	695	420	25	29	49	34	247	284	576	395
OCT	25	25	54	35	254	251	621	411	23	27	45	29	248	286	561	368
NOV	22	25	45	27	269	313	648	431	20	20	37	24	276	275	537	381
DEC	13	14	37	22	222	281	576	320	18	14	35	26	259	246	485	371
1988																
JAN	14	8	32	24	296	224	461	391	12	8	29	21	270	229	421	337
FEB$_p$	**12**	**11**	**41**	**26**	**304**	**255**	**579**	**356**	**13**	**11**	**42**	**25**	**259**	**252**	**549**	**342**
1987 TOTAL	269	298	634	420					274	285	578	402				
1986 TOTAL	294	296	733	483					283	290	687	510				
2 MONTHS																
1988	26	19	73	50					25	20	71	46				
1987	25	30	89	63					29	30	84	58				
1986	26	21	113	63					27	24	112	66				
1985	17	14	107	63					24	15	102	65				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands) EXISTING HOUSES[1] Sold	NEW HOMES Sold	NEW HOMES Available For Sale	NEW HOMES Months Supply at Current Rate	VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions) Seasonally Adjusted Annual Rate Total	1 Unit	2+ Units	Non-res.	CONSTRUCTION STATUS (Units in thousands) Seasonally Adjusted Annual Rate Under Construction Total	1-4 Units	5+ Units	Completions Total	1-4 Units	5+ Units
1987														
SEP	296	52	364	6.9	229.2	116.5	23.5	89.2	1,046	672	374	144	110	34
OCT	301	52	365	6.6	230.8	117.5	23.6	89.7	1,044	671	373	149	114	35
NOV	241	43	364	7.1	237.7	118.6	23.8	95.3	1,042	668	374	130	98	32
DEC	220	38	370	7.7	236.1	118.0	25.1	93.0	1,023	663	360	153	111	42
1988														
JAN	191	39	368	8.7	229.7	115.6	23.2	90.9	1,015	658	357	108	80	28
FEB$_p$	**220**	**53**	**368**	**7.1**	**228.7**	**114.5**	**22.2**	**92.0**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**
1987 TOTAL	3,520	674										1,665	1,192	473
1986 TOTAL	3,565	750										1,756	1,206	550
2 MONTHS														
1988	411	92										N.A.	N.A.	N.A.
1987	457	112										251	167	84
1986	431	114										240	157	83
1985	383	102										239	162	77

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Unit Type
(Dollars in millions)

YEAR AND MONTH	TOTAL Total	Mtg. Bankers[3]	S&Ls	Banks[2]	Life Cos.	1-4 UNITS Total	Mtg. Bankers[3]	S&Ls	Banks[2]	Life Cos.
1987										
JUN	$65,219	$10,121	$23,453	$28,840	$2,805	$46,706	$9,609	$19,489	$17,278	$330
JUL	57,805	8,182	19,808	26,869	2,946	39,571	7,806	16,741	14,652	372
AUG	47,289	6,760	16,746	20,747	3,036	32,592	6,558	14,192	11,598	244
SEP	48,467	7,526	16,761	21,072	3,108	31,318	7,070	13,595	10,463	190
OCT	47,839	7,387	16,719	20,149	3,584	30,256	6,819	13,647	9,574	216
NOV$_p$	**42,035**	**5,678**	**13,708**	**19,123**	**3,526**	**25,561**	**5,450**	**11,378**	**8,511**	**222**
1986 TOTAL	633,959	142,884	218,118	235,514	37,443	450,232	131,628	176,073	138,717	3,814
1985 TOTAL	362,128	69,156	145,372	119,616	27,983	238,386	63,296	109,276	64,508	1,306
11 MONTHS										
1987	586,621	109,495	193,741	252,857	30,528	409,720	103,511	161,584	141,530	3,095
1986	552,350	125,211	191,479	203,426	32,234	400,999	118,480	156,775	122,223	3,521
1985	325,757	62,335	129,453	111,684	22,285	218,660	57,500	99,185	61,062	913
1984	266,922	46,279	118,863	88,361	[illegible]	183,239	43,384	89,273	49,836	746

LENDER ACTIVITY (Cont'd.)

LONG-TERM MORTGAGE LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
JUN	$3,768	$284	$2,028	$1,164	$292	$14,745	$228	$1,936	$10,398	$2,183
JUL	3,177	236	1,502	1,053	386	15,060	140	1,565	11,164	2,188
AUG	2,467	80	1,376	772	239	12,230	122	1,178	8,377	2,553
SEP	2,608	236	1,420	574	378	14,541	220	1,746	10,035	2,540
OCT	2,885	383	1,495	641	366	14,698	185	1,577	9,934	3,002
NOV$_p$	**2,360**	**151**	**1,022**	**801**	**386**	**14,114**	**77**	**1,308**	**9,811**	**2,918**
1986 TOTAL	40,449	7,172	19,877	9,677	3,723	143,278	4,084	22,168	87,120	29,906
1985 TOTAL	26,498	2,746	15,612	5,368	2,772	97,244	3,114	20,485	49,740	23,905
11 MONTHS										
1987	33,136	3,228	15,733	10,947	3,228	143,765	2,756	16,424	100,380	24,205
1986	30,501	3,195	16,248	7,863	3,195	120,850	3,536	18,456	73,340	25,518
1985	22,986	2,122	12,669	6,151	2,044	84,111	2,713	17,599	44,471	19,328
1984	18,138	401	11,672	5,031	1,034	65,545	2,494	17,918	33,494	11,639

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
JUN	$47,463	$6,429	$24,594	$13,836	$2,604	$139,189	$14,507	$56,330	$51,138	$17,214
JUL	37,430	5,600	20,620	7,849	3,365	142,544	13,490	53,857	57,754	17,443
AUG	33,902	5,713	19,056	7,203	1,930	130,911	13,206	53,644	46,601	17,460
SEP	37,020	7,705	18,912	8,374	2,029	130,901	15,834	50,892	47,917	16,258
OCT	39,620	10,964	18,768	7,205	2,683	125,952	13,150	50,143	46,484	16,175
NOV$_p$	**29,292**	**4,604**	**15,454**	**6,478**	**2,756**	**125,242**	**12,484**	**47,784**	**48,840**	**16,134**
1986 TOTAL	527,397	128,480	231,915	127,902	39,100					
1985 TOTAL	324,089	59,551	170,755	61,311	32,472					
11 MONTHS										
1987	446,017	93,627	219,896	102,702	29,792					
1986	487,347	115,447	212,367	124,408	35,125					
1985	294,645	53,497	155,874	56,013	29,261					
1984	238,436	41,090	135,312	43,255	18,779					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1987												
SEP	148	68	26	54	175	$12,437	99	$6,180	33	$2,488	43	$3,769
OCT	138	56	24	58	108	10,744	79	4,816	29	2,183	42	3,745
NOV	119	49	21	49	679	9,272	67	4,093	26	1,883	38	3,296
DEC	108	48	16	44	122	8,633	66	3,987	21	1,511	35	3,135
1988												
JAN	110	58	14	38	117	8,018	74	4,453	16	1,143	27	2,422
FEB$_p$	**139**	**84**	**17**	**38**	**95**	**7,271**	**56**	**3,351**	**12**	**1,503**	**27**	**2,417**
1987 TOTAL	2,341	1,211	409	721	2,278	159,373	1,315	81,553	452	33,315	511	44,505
1986 TOTAL	3,279	1,907	450	922	1,853	127,758	921	56,901	346	24,719	586	46,138
2 MONTHS												
1988	249	142	31	76	212	15,289	130	7,804	28	2,646	54	4,839
1987	451	273	83	95	342	23,664	185	11,322	82	5,969	75	6,373
1986	415	266	48	101	224	14,889	107	6,428	37	2,547	80	5,914
1985	279	114	29	136	176	11,307	40	2,251	24	1,590	112	7,466

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA Portfolio Comm.	FNMA Portfolio Purc.	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC* Comm. to Sell	FHLMC* Comm. to Buy	FHLMC* Mtg. Purc.	FHLMC* Mtg. Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
1987										
SEP	$1,842	$1,743	$130,540	$4,083	$3,663	$2,917	$4,297	$4,158	$16,472	$6,499
OCT	1,566	1,278	133,102	3,819	2,713	7,882	3,078	3,111	1,910	5,362
NOV	2,899	1,297	134,633	2,702	2,408	4,271	2,979	2,742	4,634	4,670
DEC	3,115	3,747	139,960	6,374	2,123	−373*	3,261	3,201	3,645	4,985
1988										
JAN	2,254	1,267	140,522	1,683	2,150	3,148	2,168	1,832	1,661	3,919
FEB$_p$	**2,516**	**2,629**	**142,797**	**3,190**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**3,775**	**4,712**
1987 TOTAL	25,415	20,531	—	63,230	n.a.	n.a.	n.a.	n.a.	116,720	98,300
1986 TOTAL	32,987	30,826	—	60,566	106,563	136,179	103,474	102,443	152,911	98,169
2 MONTHS										
1988	4,770	3,896	—	4,872	n.a.	n.a.	n.a.	n.a.	5,436	8,631
1987	1,860	2,325	—	11,053	16,257	15,990	15,911	16,059	25,600	20,315
1986	3,892	2,347	—	6,942	10,406	11,349	8,314	7,568	16,076	10,303
1985	3,195	3,502	—	2,733	6,392	7,886	5,444	4,409	8,755	5,354

*In December, master commitment conversions exceeded new master & regular commitments taken.

INTEREST RATES AND YIELDS

1- to 4-UNIT MORTGAGES

YEAR AND MONTH	FHA OPINION SURVEY FHA New[4]	FHA OPINION SURVEY CONVENTIONAL New	FHA OPINION SURVEY CONVENTIONAL Existing	FHLBB SURVEY CONVENTIONAL New	FHLBB SURVEY CONVENTIONAL Existing	FNMA 1 Yr. ARM (1%/Yr.)	FNMA FRM Conv.
1987							
SEP	11.22%	10.86%	10.87%	9.37%	9.25%	9.43%	10.643%
OCT	10.90	10.84	10.87	9.25	9.22	9.71	11.030
NOV	10.76	10.59	10.58	9.30	9.25	9.06	10.345
DEC	10.63	10.52	10.52	9.15	9.20	10.15	9.613
1988							
JAN	10.17	10.09	10.10	9.13	9.25	8.93	10.010
FEB	9.86	9.80	9.81	9.12	9.16	8.62	9.642
MAR$_p$	**n.a.**	**n.a.**	**n.a.**	**9.14**	**9.08**	**8.60**	**9.737**

YEAR AND MONTH	CURRENT SECONDARY MARKET YIELDS GNMA[6]	FNMA[6]	FHLMC[6]	SELECTED SECURITIES A-Rated[7] Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1987							
OCT	10.64%	10.61%	10.57%	11.07%	9.52%	6.69%	7.89%
NOV	10.03	9.86	9.82	10.39	8.86	6.19	7.17
DEC	10.04	9.96	9.92	10.42	8.99	6.36	7.61
1988							
JAN	9.90	9.78	9.68	10.05	8.67	6.25	6.87
FEB	9.29	9.27	9.23	9.75	8.21	5.93	6.58
MAR	**9.39**	**9.33**	**9.29**	**9.91**	**8.37**	**5.91**	**6.62**

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1987				
OCT	−17	112	109	105
NOV	37	117	100	96
DEC	21	105	97	93
1988				
JAN	12	123	111	101
FEB	11	108	106	102
MAR	**n.a.**	**102**	**96**	**92**

NA—Not available; p—Preliminary

[1] From the National Association of Realtors "Existing Home Sales" series

[2] Mutual Savings Banks and Commercial Banks.

[3] FHA applications received includes the Direct Endorsement Program starting in 1984.

[4] Secondary market gross yields.

[5] Federal Home Loan Mortgage Corp. Existing Construction only.

[6] Securities for 0 to 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

[8] Year-to-date seasonally adjusted series not calculated.

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.